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A strategic partnership

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May 21, 2008

Dear

Let me take this opportunity to thank you for your continued support and recognition of the importance of the US-Egypt relationship. Our strategic partnership, built on the foundation of the 1978 Camp David Accords, and with the US assistance program as one of its pillars, has significantly served the interests of both the United States and Egypt and remains instrumental in achieving both countries' foreign policy, national security and economic objectives.

The Government of Egypt (GOE) is appreciative of the US military assistance which continues to support our efforts to modernize the armed forces, while enabling Egypt to contribute positively and effectively to various efforts to bring stability and achieve peace in the Middle East. The US commitment announced by the Administration in July 2007 to maintain the level of FMF to Egypt at \$1.3 billion annually over the next ten years is welcomed. In this vein, it is noteworthy that in spite of rising costs of military purchases and numerous security challenges, Egypt's annual military expenditure is at its minimum requirement, standing at 3.6% of Egypt's GDP, the lowest percentage in the region.

By the same token, the GOE is also appreciative of the US economic assistance. The ESF has been crucial in supporting Egypt's development efforts and is a testimony to the success of our development cooperation and its contribution to the creation of a modern and emerging market economy in the heart of the Middle East.

In fact, our partnership has been so successful that Egypt had proposed in November 2007 to graduate from the economic assistance program over the next few years during which the continued US economic assistance would help lock-in the economic reforms and strengthen the foundations for a continuous economic success. Specifically, Egypt proposed to reduce the economic assistance by 10% annually starting in FY09, while establishing a Friendship Fund to remain as a symbol of our successful development cooperation, promoting continuous reform in the areas of education, health, good governance and the economy. The Fund would be managed jointly, and while it will ultimately be financially self-sustainable, it will be initially financed from the annual economic assistance, the redirection of part of Egypt's economic debt repayment (\$150 million in ESF loans repayment annually) and by matching funds allocated by GOE in Egyptian Pounds.

However, and as you are aware Senator , the Administration's FY09 ESF request included only \$200 million in economic assistance to Egypt, a reduction of more than 50% compared to the previous year's assistance level of \$415 million. This sudden and sharp reduction, in contrast to the gradual reduction suggested by Egypt until full graduation, would undermine efforts to sustain and build on Egypt's economic achievements. Furthermore, it ignores the fact that Egypt is still facing serious challenges, not least of which is the recent rise in food and oil prices globally, and the ramifications of the increasing number of displaced Iraqis residing in Egypt.

In fact, the level of economic assistance to Egypt in the Administration's request for FY09 would create a situation of negative cash flow (\$150 million) in favor of the US, given that Egypt's economic debt repayment to the US is on average \$350 million annually. The GOE has and will always honor its debt repayment commitments. However I believe, Senator _____, you would agree with me that given the diverse challenges Egypt faces, having a negative cash flow while being an ESF recipient is paradoxical.

In essence to deal with this paradox, our objective is to keep the ESF at a figure higher than our annual debt repayment installments (\$350 million), or to reduce the ESF by 10% annually over a 10 years period coupled with the establishment of a Friendship Fund as we graduate from the economic assistance program completely.

Frankly, if faced by the negative cash flow consequences of the Administration's suggested level of ESF assistance of \$200 million, we would prefer to use the assistance to repay our loans in full in the context of agreed debt relief arrangements as we have suggested to the Administration.

I look forward, Senator _____, to your support to ensure that while the US economic assistance is phased out, Egypt will not be paying the United States in economic debt repayment more than what it receives in economic assistance, or that a debt relief arrangement be reached to help avoid a situation that will put additional burden on Egypt's economy, particularly as it struggles with some serious economic challenges. As Egypt continues its consultations in this regard with the Administration, your assistance by reaching out to the Administration and members of your committee as you consider the FY09 budget would be deeply appreciated.

I would like to express once again and in advance our appreciation for your assistance, which will well serve the interests of both the United States and Egypt, and I look forward to continuing to work with you on this matter.

Sincerely,

Nabil Fahmy

The Honorable
United States Senate
Washington, DC 20510
Fax No:

Officials: Egypt's Mubarak stays away from mini-summit in Libya to shun Syria's Assad

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CAIRO, Egypt (AP) - Egypt's President Hosni Mubarak will stay away from an Arab mini-summit in Libya to avoid an encounter with Syria's president, government officials said Tuesday.

The mini-summit in Tripoli on Tuesday was initiated by Libyan leader Moammar Gadhafi to work out an Arab response to a French proposal to set up a European, Middle Eastern and North African strategic bloc.

"In view of the President's engagements and tight schedule, he cannot participate in this summit," Egyptian Foreign Minister Ahmed Aboul Gheit said in a statement.

But other officials said Mubarak dodged the summit to avoid a reconciliation with Syria's Bashar Assad. The officials spoke on condition of anonymity because they are not allowed to speak to the media.

Relations between Egypt and Syrian have been strained since the 2005 assassination of former Lebanese Prime Minister Rafik Hariri, and Mubarak and Saudi King Abdullah boycotted an annual Arab summit in Syria in March. Sunni Muslim powerhouses Egypt and Saudi Arabia accuse Syria of backing the Shiite Muslim militant group Hezbollah in Lebanon.

Several Arab governments including Kuwait and Libya have been mediating between Damascus, Cairo and Riyadh, but their efforts have so far been shunned by Mubarak and Abdullah.

Assad was participating in the meeting in Tripoli, along with the presidents of Tunisia and Algeria and the prime ministers of Morocco and Mauritania. Though the proposed union would be focused on economic ties, it was also expected to involve discussions on such issues like human rights, illegal immigration and Middle East peace.

French President Nicolas Sarkozy foresees the proposed union consisting of 39 partners -- the 27-nation EU, plus a dozen on the Mediterranean's southern shores, from Mauritania to Israel and the Palestinian Authority. Gadhafi called for Tuesday's Arab summit to discuss Israel's role in the proposed union.

Initial Arab reactions to include Israel in the union have varied with some countries such as Algeria and Syria -- which do recognize the Jewish state -- balking at the idea. Egypt and Jordan, which have peace treaties with Israel, have not said they have a problem with Israeli membership.